



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA 07-15

AUDIT OF
SOUTH COAST REGION
(LICENSE SALES FUNCTION)

JUNE 2008

Memorandum

To: Ed Pert, Regional Manager
South Coast Region

Date: June 18, 2008

From: Brian A. Kwake, Chief
Department of Fish and Game

Audit Control Number
WA 07-15

Subject: Final Audit Report – South Coast Region's License Sales Function

Attached is the final audit report for the South Coast Region's (SCR) license sales function for the period August 1, 2006 through March 31, 2008. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game (DFG). The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

SCR's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the Department's response as Attachment A to this report.

We would like to thank the SCR staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

Attachment

cc: J. McCamman
S. Mastrup
T. Jordan
H. Carriker
A. Raymond
D. Eldred

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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the South Coast Region's (SCR) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for untimely deposits and inadequate separation of duties.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On January 10, 2007, the AB issued audit report number WA 06-07 on SCR's license sales function. We followed up on the finding in this report to determine if the prior audit finding had been fully resolved. The prior audit finding consisted of non-compliance of semi-annual reconciliation of license inventory. Based on our follow-up, we determined that the SCR has corrected this issue by completing two semi-annual reconciliations during the past 12 months.

BACKGROUND

The DFG has 10 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 10 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the SCR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the SCR license sales function for the period August 1, 2006 through March 31, 2008. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide the DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.

CONCLUSION

In our opinion, the SCR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$3,264,353 for the period August 1, 2006 through March 31, 2008. The internal control structure over cash receipts and inventory at the SCR in effect at March 31, 2008, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weaknesses described in the Findings and Recommendations Section of this audit report.

Brian A. Kwake, Chief
Audits Branch

March 31, 2008

Audit Staff: Scott Marengo, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 UNTIMELY DEPOSITS

Deposits are not always made timely at the South Coast Region. The following instances of noncompliance were disclosed during the audit:

- There were a total of 38 license sale deposits made during our sample period. However, many of these deposits were prepared and deposited on the same day. Out of 14 days when SCR made actual deposits, 5 of the deposit day(s) contained cash, in excess of \$1,000, for 2 or more days after the monies were collected at SCR, and
- There were also 5 miscellaneous income deposits included in our sample containing 88 total checks. Out of these 88 checks, 47 (53%) of these checks were not deposited until 30 days or more after the date on the check. One of the checks was dated September 20, 2006, for \$4,000, but was not deposited until February 28, 2008.

The License Sales and Cash Handling Policies and Procedures manual, issued by LRB, and the State Administrative Manual (SAM) Section 8032.1 require that offices immediately deposit all cash collections exceeding \$1,000. SAM Section 8032.1 further states that accumulated receipts of any amount not remain undeposited for more than ten working days.

The SCR did not always deposit money timely which could result in the potential loss or theft of State assets.

RECOMMENDATION

The AB recommends the SCR ensure deposits are made timely in accordance with State regulations.

SCR Response: SCR License Sales Function will comply with the License Sales and Cash Handling Policies and Procedures manual and the State Administrative Manual (SAM) as it pertains to license sales deposits.

AB Comments: We concur with the SCR response.

FINDING 2 INADEQUATE SEPARATION OF DUTIES

We observed that the same person who prepares bank deposits is also the license inventory custodian.

SAM Section 8080.1, requires SCR adequately separate cash deposit and

inventory functions. Duties that must be segregated include the maintenance of record files, the receipt and depositing of remittances, inputting of receipt information, and the reconciliation of input to output. Further, the California Government Code (CGC), Section 13402, requires a satisfactory system of internal accounting and administrative control to include an organizational structure that segregates duties to ensure the adequate protection of State assets.

Without proper separation of duties, DFG is at increased risk that errors or irregularities could go undetected.

RECOMMENDATION

The SCR should separate these key functions to be in compliance with both SAM and the CGC.

SCR Response: The Administrative staff person responsible for maintaining and assigning license inventory retired in October 2007, and the position has been blocked due to leave balance pay-out until June 2008. Once this position is filled, the SCR License Sales Function will be in compliance with SAM and Government Code 13402.

AB Comments: We concur with the SCR response.

ATTACHMENT A

Memorandum

Date: June 4, 2008

To: Brian A. Kwake, Chief
Audits Branch

From: Ed Pert, Regional Manager
South Coast Region 5



Subject: Audit Control Number WA07-15, Draft Audit Report Response

A recent audit of the South Coast Region (SCR) 5 License Sales Function for the time spanning August 1, 2006 through March 31, 2008, resulted in two findings:

Untimely Deposits
Inadequate Separation of Duties

Untimely Deposits: SCR License Sales Function will comply with the License Sales and Cash Handling Policies and Procedures manual and the State Administrative Manual (SAM) as it pertains to license sales deposits, however we cannot control the business practices of those seeking Streambed Alteration Agreements. Deposits for Streambed Alteration Agreements are made approximately every 10 days. The check referred to in the draft audit report dated September 20, 2006 and not deposited until February 2008, was not received in this office until February 2008, based on the date-stamped envelope.

Inadequate Separation Of Duties: The Administrative staff person responsible for maintaining and assigning license inventory retired in October 2007, and the position has been blocked due to leave balance pay-out until June 2008. Once this position is filled, the SCR License Sales Function will be in compliance with SAM and Government Code 13402.